

Message Text

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PAGE 01 ROME 16171 021303Z

43

ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 SSO-00 NSCE-00 USIE-00

INRE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02

PRS-01 /108 W

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O R 021235Z OCT 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC NIACT IMMEDIATE 0330

TRASURY DEPT WASH DC NIACT IMMEDIATE

AMEMBASSY MANILA NIACT IMMEDIATE

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

USMISSION GENEVA

USDEL MTN GENEVA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

UEHKO/AMEMBASSY TOKYO 1845

AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL PALERMO

AMCONSUL GENOA

AMCONSUL FLORENCE

AMCONSUL TRIESTE

AMCONSUL TURIN

UNCLAS ROME 16171

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PAGE 02 ROME 16171 021303Z

MANILA PASS SECRETARY SIMON PARTY FOR WIDMAN; STATE PASS FRB;

TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: EMERGENCY MONETARY, TAX AND EXCHANGE CONTROL MEASURES

REF: A. ROME 4442 B. ROME 7543 C. ROME 15771

1. /SUMMARY/. FOLLOWING SHARP DECLINE OF LIRA IN EXCHANGE MARKET, LATE SEPTEMBER 30 COUNCIL OF MINISTERS ADOPTED THREE EMERGENCY MEASURES: 1) INCREASE IN BANK OF ITALY DISCOUNT RATE, 2) TEMPORARY FOREIGN EXCHANGE PAYMENTS SURTAX, AND 3) INCREASE IN ADVANCE SURRENDER REQUIREMENT- FOR EXPORTERS. MEASURES WERE ANNOUNCED IN TELEVISED ADDRESS TO THE NATION BY PRIME MINISTER ANDREOTTI (SEPTEL).

2. /DISCOUNT RATE./ BOI DISCOUNT RATE HAS BEEN INCREASED FROM 12 TO 15 PERCENT. INCLUDING MAXIMUM PENALTY RATES FOR REPEATED USE OF DISCOUNT FACILITY, TOTAL DISCOUNT RATE CAN REACH 18 PERCENT (REF A).

3. /TEMPORARY FOREIGN EXCHANGE SURTAX/. SURTAX OF 10 PERCENT HAS BEEN INTRODUCED FOR TWO-WEEK PERIOD ON MOST PURCHASES OF FOREIGN EXCHANGE. REPORTEDLY EXCEPTIONS WILL BE GRANTED FOR PAYMENTS FOR: FOREIGN PUBLICATIONS, TRANSFERS ABROAD OF SALARIES EARNED IN ITALY, REMITTANCES OF SAVINGS FROM WAGE INCOME, INDEMNITY PAYMENTS BY INSURANCE COMPANIES, ITALIAN CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS, TRANSFERS OF CONSULAR FEES, AND FOREIGN PAYMENTS MADE BY THE ITALIAN EXCHANGE OFFICE (UIC).

4. /EXPORT SURRENDER REQUIREMENT/. BEGINNING OCTOBER 4, AMOUNT OF EXPORT PROCEEDS FROM EXPORTS BILLED IN FOREIGN EXCHANGE AND MADE ON DEFERRED PAYMENT TERMS OF UP TO 120 DAYS HAS BEEN INCREASED FROM 30 PERCENT TO 50 PERCENT (REF B).

5. /COMMENT/. EMERGENCY MEASURES TAKEN BY CABINET FOLLOWED SHARP DROP IN LIRA/DOLLAR EXCHANGE RATE FROM 859.60 AT FIXING ON SEPTEMBER 30 TO 872.90 AT FIXING ON OCTOBER 1. INCREASE IN DISCOUNT RATE IS MEANT TO REINFORCE RECENT ONE-TIME UNCLASSIFIED

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PAGE 03 ROME 16171 021303Z

INCREASE IN BANK RESERVE REQUIREMENT AS MEANS OF ABSORBING LIQUIDITY AND IMPEDING SPECULATION AGAINST LIRA EXCHANGE RATE. EFFECT OF RESERVE REQUIREMENT AND OF SUCCESSFUL PLACEMENT OF LATEST ISSUE OF TRASURY BILLS (REF C) HAS ALREADY BEEN INCREASE IN THREE-MONTH INTERBANK INTEREST RATE FROM 17.0625 ON SEPTEMBER 28 TO 18.0625 ON OCTOBER 1. TEMPORARY SURTAX ON MOST PURCHASES OF FOREIGN EXCHANGE IS DESIGNED TO ARREST GROWING LACK OF CONFIDENCE IN LIRA EXCHANGE RATE WHICH HAS BEEN EVIDENT IN RECENT DAYS.

IN VIEW OF SHORT TIME PERIOD OF APPLICATION, EFFECT SHOULD BE
TO SHARPLY REDUCE FOREIGN EXCHANGE DEMAND DURING THAT PERIOD.
ANDREOTTI ALSO SUGGESTED THAT RECENT WEAKNESS OF LIRA WAS PARTLY
DUE TO SPECULATION ABOUT DEUTSCHMARK REVALUATION, WHICH SHOULD
MODERATE FOLLOWING ERMAN ELECTIONS. INCREASE IN ADVANCE SURRENDER
REQUIREMENT FOR EXPORTERS MAKES USE OF TECHNIQUE ESTABLISHED LAST
MAY WHICH REQUIRES EXPORTERS TO BORROW ABROAD TO MEET THIS RE-
QUIREMENT. BOI OFFICIALS IN RECENT DAYS HAVE ATTRIBUTED WEAKNESS
OF LIRA IN LARGE PART TO WITHHOLDING OF FOREIGN EXCHANGE
RECEIPTS FROM MARKET, AS WELL AS TO INCREASED IMPORT PAYMENTS FOR
PETROLEUM AND MEAT.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, FOREIGN EXCHANGE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 OCT 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME16171
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760372-0338
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761090/aaaacztz.tel
Line Count: 126
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 ROME 4442
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 09 AUG 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 AUG 2004 by barnescd>; APPROVED <16 DEC 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EMERGENCY MONETARY, TAX AND EXCHANGE CONTROL MEASURES
TAGS: EFIN, IT
To: STATE
TRSY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006